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Economic Conditions
Governmental Finance
United States Securities

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General Business Conditions

THE opening of May finds general business still moving towards betterment, albeit that progress continues to be somewhat halting and marked by irregularity. The steel, automobile, and building industries have continued to make the best showing, and the expectation has been that gains in these basic lines would eventually find reflection in a better level of business all around. Thus far, it must be admitted, business does not show a very pronounced tendency, the volume of freight moving on the railways still falling below the corresponding weeks of last year.

Among constructive developments of the month we give particular weight to the recent strong advances in prices of agricultural products to levels well above those of a year ago. Wheat and corn are both bringing good prices at around \$1.60 and \$1.08 a bushel in the Chicago market, up 33 cents and 24 cents from the year's low point, and 26 cents to 38 cents above a year ago. Oats have gone from 52 cents a bushel to 71 cents since January, and are now 24 cents above last year. Dairy products are likewise bringing remunerative prices to producers. Cattle and hides are selling at scarcity values, wool prices are firm, and cotton at 21.85 cents is quoted 6½ cents above a year ago. In fact, with the recent sharp recovery in hog prices to around \$10.00, practically all of the major agricultural commodities might now be said to be on a paying basis. Coming at a time when the general list of non-agricultural commodities has advanced but little, these recoveries have gone far towards eliminating the disparity in prices heretofore existing to the disadvantage of the farmer. With last year's improved financial returns from the crops as a starter, the present prices, if maintained and accompanied by a fair yield, should accomplish a great deal toward restoring prosperity to the agricultural sections and extending an impetus all down the line of general trade.

A further favorable factor is the continued abundance of funds for commercial purposes. It is true that rates in the short time markets have recently hardened somewhat, due to the combination of an active Spring demand for commercial loans, exceptional activity in the security markets, and gold exports. Nevertheless, while it is possible that gradually firming rates may exert a restraining influence on the security markets, we do not foresee any tightening sufficient to seriously hamper business. Meantime, we point to the substantial rise in commercial borrowings at the banks since February as proof that funds are being put to business uses in increasing volume.

First Quarter Business Profits

Corporation earnings statements now being made public for the first quarter show a good deal of variation, in keeping with the mixed character of business, but on the whole are encouraging considering the unpromising way in which the quarter began. Outstanding of the reports was that of the General Motors Corporation showing net earnings available for dividends amounting to \$69,468,576, the largest excepting only the second quarter of 1927 in the history of the corporation, and an increase of 32 per cent as compared with \$52,551,408 earned in the first quarter of last year. The United States Steel Corporation earned \$21,331,871 after all charges during the first quarter as against \$13,794,833 in the final quarter of last year, \$26,327,362 in the first quarter of 1927, and \$26,074,957 in the corresponding quarter of 1926. Thus Steel did not do quite so well as Motors, notwithstanding that steel output for the quarter was slightly larger than last year. The trouble, of course, lay in prices, most of the shipments during the quarter being made on orders taken before the recent advances in prices became effective.

Excluding General Motors and United States Steel a tabulation of earnings of 113 industrial companies thus far reported reveals 73 increases and 40 decreases as compared with the first quarter of last year, with the total showing an increase of 14.7 per cent. While final conclusions as to the quarter's showing are unwarranted until more reports are available,

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the results thus far have been better than seemed probable. Prospects, moreover, point to a still better showing for the second quarter. One of the chief factors which has held down profits in the past three quarters has been the losses sustained in the oil group, and these companies henceforward will have last year's poor figures to compare with, besides having the advantage of the recent improvement in the gasoline situation. Steel companies likewise promise to do better in the second quarter, while earnings of most automobile companies should show up favorably, the chief element of uncertainty in this industry being the effect of Ford competition, which probably will not be fully felt until the third quarter.

The Trend of Employment

The confused aspect of business is well illustrated in the conflicting nature of employment reports. A recent statement by the National Association of Manufacturers is to the effect that somewhat over a thousand representative firms of its membership reported in March that they were employing 663,180 workers, as against 655,015 at the same time in March a year ago, an increase of 1¼ per cent. Operations, moreover, were said to be at 87.5 per cent of capacity, or 6½ per cent larger than a year previous. The index of the Federal Department of Labor, which receives reports from manufacturing industries employing about 3,000,000 workers and probably presents the truest picture the country over, showed a gain of nearly 1 per cent in March, bringing the index to the highest since last October, but leaving it still 5.7 per cent below March last year. Apparently the best evidence is that industrial employment, while gradually improving, has still some way to go before recovering to the levels of a year ago.

One feature of the present unemployment situation which is deserving of attention is its failure to result in corresponding reductions in the average earnings of workers. In New York State, for example, the reports indicate that until September, 1927 per capita weekly earnings of factory workers averaged higher than ever before and since September they have been higher than in any year save the one immediately preceding. This may be due in part to a tendency for concerns in time of shrinking business to lay off first their more inefficient and lower paid workers, thus raising the level of average earnings, but the principal reason appears to be the absence of the heavy wage cutting which has accompanied periods of severe unemployment such as 1921. Undoubtedly, the reduced employment rolls are partly due to the growing use of labor saving machinery and improvement in organization which, while resulting in the displacement and temporary unemployment of some workers, is making possible a higher average of earnings for those who remain at the old jobs. That the ultimate result of this economy of labor and increased earning power on the part of the individual will be the stimulation of new industries and an increase in the standard of general well being will not be doubted by those who have watched the development of similar movements in the past.

Activity in Key Industries

Out of the confusion of evidence regarding business emerges the central fact of high level activity in the key industries,—steel, automobiles, and building. Steel production in April, instead of showing the usual seasonal decline, has held up to the March rate, making this April one of the most active for the industry on record. Of late, reports have indicated a falling off in new buying which may lead to some curtailment of operations in the near future. That actual consumption of steel has fallen off seems doubtful, in which case the reduction would prove to be temporary.

The comeback in the automobile industries is also a demonstrated fact, with total production of cars and trucks for the first quarter 3 per cent ahead of that a year ago, notwithstanding the low totals for Ford. Though April and May usually see the peak of Spring production, indications are that the speeding up of Ford output at a time when other manufacturers are experiencing their normal letdown may extend seasonal activities longer than usual, with consequent benefit to general business. News from the distributing end of the business has been favorable, so that predictions of a record breaking total of production for the year seem nearer of realization.

The building industry is maintaining an active pace,—not quite up to peak totals of the past two years, but nevertheless close enough to indicate large volume operations for the industry. Contracts for fabricated steel have been running 10 per cent or more above those of the same period of any previous year.

The Northwest Comes Back

One section of the country where the improvement in business has been definite is the Northwest. Hard hit, as were all the farm districts, by the deflation of 1920-21, this section has been more unfortunate than the rest in its succeeding crops and as a result has been slower to recover than most other sections. With last year's bountiful crops, however, the fortunes of the Northwest appear to have turned, with the result that that section is now moving ahead at a rapid rate.

Cash income for 1927 of farmers in the northwestern States comprising northern Wisconsin and Michigan, Minnesota, the Dakotas,

Nebraska, Montana, and Idaho, was recently estimated by the Federal Reserve Bank of Minneapolis at $764,000,000, an increase of 8½ per cent over that of 1926 and 30.6 per cent over the estimated figures for 1923. With this increase in income the district has taken on new life. Business has been stimulated and bank deposits have been increasing. One evidence of increased general well being appears in a large demand for investment securities, the Federal Reserve Bank reporting that sales of representative Twin City dealers in 1927 amounted to $86,000,000, a new high record, 24 per cent above the total for 1926 and 44 per cent above that for 1923.

Similar indications of improvement appear in the railway statistics, the Northwest having the distinction of being the only important section of the country to show a gain in car loadings as compared with a year ago. Following is a table comparing cars loaded by six railroads in the Northwest in the five weeks ended March 31 this year and a year ago:

	1927	1928	Change	%
Chicago North-West	169,993	164,095	—5,898	—3.5
Chicago Great West	26,332	27,861	+1,529	+5.8
St. Paul	144,893	144,733	— 160	—0.1
Gt. Northern	55,148	59,473	+4,325	+7.8
Soo Line	45,928	45,617	— 311	—0.7
Northern Pacific	67,903	71,036	+3,133	+4.6
Total	510,197	512,815	+2,618	+0.5

Reflecting bountiful crops and generally increased movement of goods due to enlarged purchasing power, car loadings for the Northwest for the period were slightly above those in the corresponding period of last year, as against a decrease for the country as a whole in the same period of 4.5 per cent.

Money and Banking

The credit situation in New York and in the country has continued to develop in the last month along the lines followed in the month of March, as reviewed in our April Letter. Member bank loans in the aggregate were higher throughout April than in March, the total for the reporting banks having been $15,763,000,000 on April 25, against $15,270,000,000 on March 21, and $15,048,000,000 on February 21. Interest rates were firmer all along the line. Call money in New York touched 5 per cent on only two days in March, the 28th and 30th, but reached it on every day in April but two, and 6 per cent was reached three times. Time money ruled at 4½ to 4¾ in March and 5 per cent in the last half of April, commercial paper was up ¼ to ½ per cent and bankers' acceptances about ⅜ per cent.

No increase occurred in the "Other" loans of member banks during the month, which is the class that includes commercial loans. Loans on stocks and bonds increased by $295,000,000. Investments declined slightly. Rediscounts and advances by the Reserve banks increased from $524,000,000 on March 28 to $709,000,000 on April 25, or by $185,000,000. The facts indicate borrowing by member banks on Government securities for the purpose of making loans on stocks and bonds.

It is a notable fact that the report of brokers' loans as of April 25 shows an increase ($15,385,000) over the previous week, and that this was the seventh consecutive week in which an increase has been shown. The report, with the figures of the week before, and showing the division of the total volume between Federal Reserve members in New York, out-of-town banks and other lenders is as follows:

	April 25	April 18
Loans for own account	$1,200,217,000	$1,163,530,000
For out-of-town banks	1,613,640,000	1,702,908,000
For others	1,330,529,000	1,262,563,000
Total	$4,144,386,000	$4,129,001,000

The total April 25 is the largest on record and compares with $2,883,000,000 on April 27, 1927.

Gold exports in April aggregated $95,000,000, of which $72,000,000 was earmarked holdings to France. Of the remainder, Italy obtained $6,000,000, Germany $5,000,000, Argentina $3,500,000, Uruguay $3,000,000, London $1,500,000 and Brazil $1,680,000. These shipments are not especially significant, inasmuch as the purpose of the French authorities to withdraw the earmarked stock has been known for some time, and the other takings are not indicative of a persistent movement.

The gold reserves of the Reserve banks are only slightly less than at the beginning of the year, owing to the fact that so large a proportion of the gold exports have been of gold previously earmarked. In fact, the percentage of reserve is higher, having been 63.8 on January 4 and 67.3 on April 25. This percentage gain was due to the retirement of Federal Reserve currency which had been in circulation during the holiday season. The reserve decline from March 28 to April 25 was 2.2 per cent.

Position of the Reserve Banks

Although the change in the reserve position during the month was slight, the policy of the Reserve authorities was exhibited by the action of the Boston, Chicago, St. Louis, Minneapolis and Richmond banks in raising the discount rate from 4 to 4½ per cent, and also by a reduction of the holdings of Government securities from $386,000,000 on March 28 to $305,000,000 on April 25. This sale of $81,000,000 securities signified a withdrawal of funds from the market, but it should be noted that it was less by over $100,000,000 than the credit issued through rediscounts.

The policy of the reserve banks is to discount all eligible paper offered at the official rate. They do not initiate such transactions,

but in the case of sales or purchases of securities the initiative is with them. The net increase of reserve credit outstanding as the result of rediscounts and advances was $205,000,000, and the amount withdrawn by the sale of securities was $81,000,000. Thus net expansion was $124,000,000.

Contrary to the general expectation the discount rate of the New York bank was not raised on April 26, although a large part of the increase of rediscounts for the system occurred at this institution. The Bank contented itself with reducing its security holdings, perhaps upon the theory that this and the rate-advances of five other Reserve banks would be action enough for one week.

The Sources of Credit

This lenient policy does not alter the facts of the situation as set forth in our discussion of last month. It is evident that the expansion of loans in the past month has not been independent of Reserve credit, but based upon fresh emissions of it. This is the fact which is pertinent in the debate that has been going on as to whether or not the Reserve banks have the power to stop the expansion of loans.

Whatever opinion one may hold as to the ultimate level of prices for stocks—into which many factors will enter—it is important to have a clear understanding as to the source of the credit expansion which has been going on. We desire to repeat the statement made last month that there are and have been only three sources, to wit: gold imports, funds released from business, and Federal reserve credit. It is important to appraise the probabilities of credit from each of these sources.

There have been no gold imports of consequence in recent months and they are out of the calculation for the present. An important amount of money has come into the call and short-time money market from corporations, by reason of slackening business. These funds are there to make earnings until needed elsewhere, and the same may be said of considerable country bank money. It will be prudent policy to recognize that these sums will not be permanently available in the New York market, and to take account of what effects their withdrawal may have. On the other hand, if business should fall off still more, additional funds will come here, but in that event it will be prudent also to consider what the effects of poorer business may be upon market prices.

The one remaining source of credit is the Federal Reserve banks, but as this statement is not agreed to in all quarters, we will amplify it briefly. In the first place it should be clearly understood that we are discussing the means available for credit expansion, and nothing else. We are not commenting upon the level of market prices, the influence of declining interest rates upon capital values, or attempting to appraise ultimate values. We are not dealing with purchases made from current income without borrowing. We are attempting to deal only with the supply of available credit for all purposes.

The State of Bank Reserves

Upon this point we would emphasize that there is no great supply of available credit in the interior banks. The common saying that the country banks are full of money is unfounded. It is true that they have a large surplus of funds above what is needed at home. It is available for home use, but it is a mistake to think that it is at present unemployed. It is largely in New York now. As evidence of this, we have the abstract of the reports of all National banks as of February 28, 1928, recently published by the Comptroller of the Currency. It shows the state of National bank reserves at that date, by reserve districts. The aggregate reserves required in all districts was $1,421,556,000, and the aggregate surplus was $35,000,000 or 2.5 per cent of the sum required. It should be borne in mind that in order to maintain its legal reserve, a bank must have at least a small working margin, and $35,000,000 was the margin of the 7,734 National banks on February 28. It may be assumed that State banks and trust companies were working on a similar margin. This should be conclusive that in the aggregate no large amount of banking reserve is at present unemployed. The evident fact is that facilities of communication are too convenient for bankers anywhere to keep important reserves in idleness when they can be making earnings and at the same time be immediately available for any purpose.

We will also repeat our statement that banks are unable to expand their loans unless their reserves are increasing. A loan either increases a bank's deposits or diminishes its cash, and in either case it makes a demand on the reserves. It is needless in a discussion of the money market to talk about the increasing wealth of the country, except as it signifies an increasing stream of current income available for investment. This discussion relates to the supply of bank credit, and the essential fact is that no matter how much collateral is available bank loans cannot be increased without a corresponding increase of reserve.

The Reserve banks are able to create legal reserves for the other banks, but subject to the restrictions of the Federal Reserve Act. The immediate question is whether there is any other source from which considerable supplies of credit may come. The answer is that there is not.

The Need for Conservative Policies

We have expressed the opinion repeatedly that the Reserve authorities will not wish to

deal inconsiderately with the situation, and their course confirms this opinion. They have however the responsibility of protecting the entire credit situation. They cannot be expected to view a continuing expansion of their credit with anything but concern, because once their credit is issued and becomes the basis of other credit it cannot be withdrawn without very serious consequences.

Everybody is interested in the maintenance of an ample fund of credit in the Reserve banks—a fund sufficient for any possible emergency. The member banks are interested in this, and they are interested also in keeping in their own hands an ample supply of eligible collateral, the lawful means by which Reserve credit may be obtained. Finally, the brokerage houses who are borrowing for their customers, and lastly the customers themselves who are carrying stocks and believe that higher values are yet to be realized, are all interested that there shall be ample credit resources in the Reserve banks. The latter are the backbone of the entire situation. If anything should happen to cause an important withdrawal of funds from this center, the surplus reserves of the Reserve system would be the dependence.

The problem of the Reserve banks is not that of forcing liquidation, but of preventing a continued draft upon their reserves, and in this they are entitled to cooperation. They cannot view without concern the use by member banks of eligible paper for the purpose of making loans which will be ineligible for rediscount, but this is a matter in which the member banks themselves certainly are as much interested.

The most important question related to the present situation is not the level of prices, but the question whether the situation is adequately protected against a reaction of any possible severity. A calculation has been made which shows that the aggregate of brokers' borrowings is less than 9 per cent of the aggregate market value of the listed stocks. This is interesting as showing that although the volume is large it is small in proportion to the total of security values and of course insignificant in relation to the country's total wealth, but it does not prove much as to security of the loans. Obviously the listed securities are not all pledged for the payment of the loans. Reactions, however, are a familiar feature of stock exchange history, and nobody supposes that the last of them has been seen. They will come and pass without lasting results if the credit structure is abundantly strong. The last four years have made a wonderful chapter in the history of the New York Stock Exchange and everybody who has profited by it should be interested in protecting the existing credit structure against any development which possibly might menace it. It will be a mistake to expect that additional supplies of credit such as have been made available by continuing imports of gold will be available in the future. This means nothing as to intrinsic values, but it is a factor to be reckoned with in the credit situation.

The Bond Market

Although the bond market slowed up considerably late in the month in response to the firming of money rates and the raising of rediscount rates by several of the Federal Reserve banks, price recessions were moderate in most departments and the trading volume as a whole was well maintained. New issues are moving satisfactorily. Dealers generally report a shortage of desirable offerings. With the technical position of the market in as good shape as it has been at any time this year, and with a large volume of investment funds constantly coming into the market the situation is fundamentally sound.

During most of the month price trends were decidedly mixed. United States Government bonds, always sensitive marketwise to rediscount rates, eased off, and high grade legal railroad bonds declined to the lowest level of the year. Public utility bonds, on the other hand, were active at rising levels and the average reached a new high for the year. There was plenty of activity in the speculative and convertible issues and several such bonds in the industrial group reached new record high prices.

The Dow Jones average for 40 listed domestic corporate issues (10 high grade rails, 10 second grade rails, 10 industrials and 10 public utilities) on April 25th was 99.00 as compared with 99.32 on March 26th and 97.33 on April 25th a year ago. The average is now about .50 under the high for the year. The decline is accounted for principally by a loss of nearly two points in the high grade rails. This weakness was attributable to a readjustment of prices following the new law in New York State allowing savings banks to invest in certain public utility and additional railroad issues.

United States Treasury Issues

The rise in time and call money and in Federal Reserve rediscount rates stimulated a selling movement in both long term and short term Government issues. The persistent liquidation by Federal Reserve banks of a portion of their Government holdings was also a depressing factor. Declines were orderly, however, and numerous fair sized buying orders are beginning to appear at present levels. Many of these issues are now selling on an attractive basis as indicated by the

table below giving current market and current yield on the various unregistered issues, together with their high prices for the year.

	High for 1928	Market April 26th	Current Yield
Liberty 3½s, 1932-1947	101.26	101.9	3.15%
Liberty 1st Convertible			
4¼%, 1932-47	103.15	102.	3.69
Liberty 3rd 4¼s, 1928	100.26	100.9	3.40
Liberty 4th 4¼s, 1933-38	104.00	102.27	3.68
Treasury 3¾s, 1946-56	108.10	106.30	3.23
Treasury 3⅜s, 1943-47	103.10	102.	3.20

Quotations after the decimal point in the above table represent one or more thirty-seconds of a point.

Ease in Municipals

The municipal market during April continued the leisurely course adhered to since the first of the year. With fundamental conditions governing the market unchanged there is considerable difference of opinion as to when the customary Spring investment demand will make itself felt. There has been some slowing down in investment buying by institutions which are apparently willing to let their money accumulate until present money uncertainties are cleared away. This attitude, however, is creating a larger backlog of investment buying power which must eventually make itself felt.

The average price of representative city and state bonds sagged somewhat during the month. Dealers' shelves are not over-stocked and the immediate future will not witness any notable increase in the supply of new issues. With the exception of a $15,000,000 issue by Westchester County, New York, to take up notes issued during the year, a $11,000,000 issue by the Chicago Sanitary District, and a $7,000,000 issue by the State of Illinois, prospective amounts are individually small. The fact that the first quarter of 1928 set a record for municipal and state issues does not necessarily point to a continuance of a record output. The first quarter showing included several large issues such as the New York City, New York State, Philadelphia, Detroit and Arkansas loans. With the visible amount of new financing for the next few months somewhat restricted, dealers' shelves apparently will not be overburdened.

St. Paul Issues Strong

The feature in railroad bonds during the month was the extreme activity at rising prices of the various St. Paul issues, particularly the Adjustment 5s of 2000 and the General 5s of 1975. The former sold up to 79¾ and are currently quoted at around 78⅝. This compares with a price of about 62 when the bonds were introduced to trading a few weeks ago. At current levels of 97⅛ the General 5s of 1975 also show a fair advance. The improvement in price of these issues is based primarily upon the better earnings showing and the favorable outlook for the reorganized company. Late in the month a public offering was announced of $24,000,000 Chicago, Milwaukee and St. Paul Railway General Mortgage 4½s, assumed by the new Chicago, Milwaukee and St. Paul and Pacific Railway. These General Mortgage bonds, undisturbed in the reorganization, are an absolute first mortgage at approximately $19,820 per mile on about 6,245 miles of road including practically all the principal lines of the company between Chicago and the Missouri River. About $17,000,000 of the proceeds will be used for the redemption of outstanding issues and the balance for additions and betterments and other corporate purposes. The bonds were offered at 102½ and interest to yield 4.38 per cent.

Increasing Foreign Listings

Another important step in the creation of an American market for foreign government issues was taken during the month when the New York Stock Exchange admitted to its bond list two British issues, the first, £388,000,000 United Kingdom of Great Britain and Ireland 4 per cent funding loan of 1960-1990, admitted on April 17th, and the second the entire £2,088,173,638 United Kingdom of Great Britain and Ireland 5 per cent War Loan of 1929-47 admitted on April 25th. At the present rate of exchange the latter issue has a face value in American money of about $10,190,000,000. This is the largest bond issue ever listed on the New York Exchange, its nearest competitor in point of size being the United States Fourth Liberty issue amounting to $6,200,000,000. Although London will continue to fix the price of these issues, the listing in the American market is considered highly important because it will facilitate the settling of international trade balances and will make the securities more acceptable for collateral purposes.

Following closely upon the decision of the New York Stock Exchange to accept for listing the "American shares" of foreign corporations, exchange trading in these British government issues represents another step in the development of an international security market in New York. Trading in the first "American shares" of a foreign industrial began on April 25th as a result of the approval of the application of Debenhams Securities, Ltd. for listing of its "American shares." Applications covering several other "American shares" are now before the Stock Exchange authorities for approval. It seems certain that a much wider use of the New York Stock Exchange facilities for trading in overseas securities is near at hand.

The Rice Industry

The rice crop of the United States in point of money value is about in the class of rye, flax and beans, having ranged from $37,000,000 to $51,000,000 in the last five years. The crop of 1925 was 33,000,000 bushels and the farm value on December 1, of that year, as estimated by the Department of Agriculture was $51,232,000, but the crop of 40,231,000 bushels in 1927 was estimated by the same authority at $37,728,000. This is a case illustrating the condition, which occurs not infrequently in agriculture and of which the farmers bitterly complain, where a large crop brings the producers a much smaller return than a small crop.

The average farm price of rice, as estimated by the Department of Agriculture, in the five year period 1909-1913 was 81.2 cents per bushel, and the highest price in any year since was in 1919, when it was $2.66 per bushel. Since then the farm price and United States production have been as shown below:

	Price Per Bushel	United States Production
1919	2.66	41,985,000 bu.
1920	1.19	52,066,000 "
1921	.95	37,612,000 "
1922	.93	41,405,000 "
1923	1.10	33,717,000 "
1924	1.38	32,498,000 "
1925	1.54	33,309,000 "
1926	1.10	41,730,000 "
1927	.93	40,231,000 "

It will be seen that the high price of 1925 came after three years of relatively small crops and the low price of 1927 after the second year of relatively large crops, the latter resulting in large stocks. In 1926 rice was included in the McNary-Haugen bill as one of the commodities to which the provisions of that measure would apply.

Prior to about 1912, when California became important as a producer this country was an importer rather than an exporter of rice, but since then the situation has been reversed. It is estimated that about 34 per cent of the 1926 crop was exported, and the exports went to fourteen countries. Probably 90 per cent of the rice consumed in this country is produced in the States of Louisiana, Texas and Arkansas, but these States export important quantities to Canada, Cuba, Porto Rico, other Latin American countries and Europe. Louisiana ranks first in production, Arkansas second, California a close third, and Texas fourth. The California surplus goes to Hawaii and Japan, and in 1926 the exports to Japan amounted to about 20 per cent of the State's production. About 97 per cent of the world's crop of rice is grown in Asia, and it is remarkable that this country should figure so extensively as an exporter in competition with the cheap labor of the Far East. The demand from Japan varies with the crop of that country and the price in this country is affected by that demand, which has been light in recent months.

The rice producers have been disappointed over the failure of rice consumption in this country to increase. In fact it was less in 1927 than in 1910. It lends itself to many appetizing dishes and in the part of the world where the population needs must look for the greatest nutriment at the lowest cost rice is the mainstay. A United States Government report says: "Rice is nutritious, easily digested, palatable, and a relatively cheap source of fuel for the body."

Recently 300 rice-growers and millers of Louisiana, Texas and Arkansas held a meeting at Jennings, La., the center of the rice industry of these states to consider what might be done to promote a better appreciation of the merits of rice as a staple article of diet in this country, and on March 28 an organization to be known as the National Rice Association was completed, with Mr. Frank Godchaux, President of the Louisiana State Rice Milling Association, as President, and Mr. J. Allen Foster, President of the Lake Charles Rice Milling Association, as Treasurer. It is intended to conduct an active campaign to make the country rice-conscious and we wish success to the undertaking.

Government Price Fixing

The system of control which the British Government has had in force in recent years over the marketings of rubber from its Asiatic Colonies, Ceylon and Malaya, will come to an end November 1, next, according to notice recently given by that Government. When the scheme went into effect these colonies were producing about 75 per cent of the world's new supplies, but production was in excess of consumption and the price was unremunerative. It was said that many of the plantations were operating at a loss and that extensive abandonment would result unless relief was afforded in some way. An attempt was made to obtain concerted action by the British and Dutch East Indies, but the Dutch authorities declined to join and the British authorities decided to go it alone. The plan of control was to regulate exports by the price of rubber in London, restricting them when the price was low and relaxing the restriction as the price advanced. The production of the two colonies was so large a proportion of the world's supply that this control was temporarily effective, but it had the serious disadvantage to the British producers of restricting the development of the industry at home and stimulating it in other countries. They were holding an umbrella for producers all over the world and under the necessity of reducing their own proportion of the supplies as production increased elsewhere. The British

share of world supplies had fallen from 75 per cent to 50 per cent, and with development outside of British territory continuing the British Government some months ago appointed a committee to review the situation. Presumably, the report of this committee convinced the authorities that the restriction was not working advantageously to British interests, hence the announcement of abandonment. The price of rubber has declined to about 17 cents per pound, which is about where it was when the plan was inaugurated. The British industry has had several years of hectic prosperity, tempered in the last year by declining prices and reduced exports, but it is now back to where it was before, but with more competition in sight for the future, for which its own policy is largely responsible.

The Coffee Restriction

Brazil is a country of vast and varied resources, but possesses such advantages for the production of coffee that the productive energies of the people have concentrated largely in that industry, with some of the undesirable results which are always seen in what is called a "one crop" region. The climatic conditions are similar over the area in which the bulk of the crop has been grown, and production and prices have been subject to great fluctuations. The Brazilian Government has been struggling for years with the problem of stabilizing the price. Coffee provides about 80 per cent of the total value of Brazilian exports, hence the ability of the Government to meet the interest upon a large foreign indebtedness, and of the country to cover the value of its imports and maintain the stability of its exchanges depends mainly upon the price realized. Brazil produces approximately 75 per cent of the world supplies, and owing to differences in quality much of the coffee grown elsewhere is not directly competitive.

The Brazilian plan of control, like the British plan for rubber, is by restriction upon marketings. The railroads are not permitted to bring coffee to the ports except as authorized by the Coffee Institute, which regulates offerings on the market and fixes prices. Warehouses are built at railroad points in the interior, where coffee is received and bills of lading issued against it, the shipments to be moved in the order in which they are received. The Federal Government and the several States in which coffee is produced have borrowed very large sums abroad for the purpose of making loans to the producers upon this coffee in storage, pending its movement.

It is generally recognized even by the defenders of price regulation that some kind of control over production must accompany it, otherwise supplies will increase, prices in time will find the same old level. In Brazil there is no direct restriction upon production, but it is obvious that if coffee accumulates in the warehouses and the date of removal becomes more and more remote, interest, storage and other carrying charges will become increasingly burdensome, and effect a gradual reduction of the net return to the producer. It is evident that a continued accumulation of coffee would eventually break down the system.

The Stimulus to Production

The present plan has not been operating long enough for results to show in production, inasmuch as coffee trees do not come into bearing until about five years old. Reports indicate considerable activity in planting, particularly in States where coffee culture has been on a small scale in the past. Last year the authorities of the Coffee Institute addressed a communication to the President of the State of Parana, where production has been increasing, inviting that State to join the Institute and put the coffee regulations into effect, urging the common interest in making the system effective. The President of Parana replied politely, commending the policies of the Institute, but explaining that the State of Parana was just getting started in the coffee business, and did not wish to discourage the development. He asked that they be excused for the present. The reply illustrates the fundamental difficulty in all attempts to control production and prices. The people who are established in a business are in favor of maintaining the status quo, but those who are just getting started want to be free to expand. However, the State of Parana was afterward brought into the Institute, along with other States in which production is increasing, and all of Brazil is now united upon the policy.

Nevertheless, the new districts present a problem, because the young trees produce much more abundantly than the old ones and therefore at lower costs, hence there is danger that production will increase to such an extent that even though the price is sustained the restrictions upon marketing will make the returns unprofitable to the old plantations.

A Critical Year

The coffee crop year ends with the month of June, and last year at this time it was evident that a very large crop was in prospect. Great interest was manifested in coffee circles as to whether Brazil would undertake to maintain the price or would be able to muster the resources to do so. Prices were down at that time approximately 40 per cent from the high point in 1924; the price of "Santos 4," the brand of coffee which has the largest sale in the United States, on the New York market, touched 29¼ in November 1924, declined to 16½ at the low point in May 1927, facing the

big crop, and is now at about 22½. These are considerable fluctuations for prices which are supposed to be stabilized, but undoubtedly they would have been much greater but for the organized "defense."

The management of the Institute has been in capable hands, and backed by all the resources of the Federal and State Governments. The trade was very skeptical of its success in dealing with the big crop. Coffee dealers and traders the world over allowed their stocks to run down almost to nothing, and some of the more venturesome sold coffee short against future deliveries, expecting a further decline, but this speculation proved costly. As the new crop season advanced it became evident that the big yield had drawn upon the vitality of the trees to such an extent that the crop of 1928-29 would be much smaller. Then the tension relaxed, the trade recognizing that the Government had the situation in hand at least until another big crop came in sight.

The Brazilian crop harvested in 1927-28 is estimated at about 24,000,000 bags, against approximately 14,000,000 in each of the two years next preceding, and the world crop is estimated at 31,250,000 bags, against approximately 21,250,000 in each of the two years preceding. The next largest world crop was in 1906-07, when it was 23,786,000 bags and of this the production of Brazil was 20,200,000 bags, the record until this year.

Undoubtedly Brazil has won a signal victory in its fight for coffee, and we have no desire to minimize or discredit the achievement, but the lesson which the story carries is the same that comes from every such experiment. It is, that an effective control over the supply is essential to success in price regulation. Brazil has had a position in coffee scarcely equalled by that of any country in the case of another commodity, big crops have been followed by small ones in a manner which has favored regulation, and the waning production of the old trees has offset much of the new planting. Nevertheless, it is evident that there as elsewhere artificial price-lifting tends to increase production, and thus counteract its own influence. Price-regulation requires complete control of an industry by the regulating authority.

The McNary-Haugen Bill

The McNary-Haugen bill*, which in somewhat different forms, has been before Congress several years and last year was passed by both Houses and vetoed by the President, has passed the Senate again and is expected to pass the House and be presented to the President a second time within a few days. This measure differs radically from the rubber and coffee plans in that while the latter are intended to control exports and thus control the world prices of the two commodities, the McNary-Haugen bill is for the control of domestic prices only, the excess of production over domestic consumption being exported at world prices. It would operate wholly at the expense of domestic consumers.

It is claimed for the McNary-Haugen bill that it is an exception to the general rule that price-lifting measures defeat their own purpose by stimulating production. It is said that the provision by which the excess over domestic consumption is to be sold abroad at world prices will serve as a penalty upon the excess, and will effectively discourage the farmers from producing an excess. It is affirmed that the producer will differentiate between the portion of a crop sold for domestic consumption at a profit and the portion sold (it is alleged) at a loss for export, and will naturally curtail the supply of the latter as closely as practicable while providing a full supply of the former.

In fact, there would be no differentiation. All farm products would be sold in the same manner as at present, without any attempt to distinguish between what is to be consumed at home and what is to be exported. The farmer never would know whether any part of his own crop had been exported or not. He might understand that the price which he received was lower by reason of the fact that the exported portion had brought down the average price received by the Government marketing organization, but he knows now that the less wheat this country has for export the higher the price will be. If this knowledge does not influence his own policy now, there is no reason to think that increasing exports ever will influence him, so long as the price he receives is high enough to induce production. The net price to him will determine his attitude, and this bill is intended to increase that price. If it does so, according to all experience it will tend to increase production, which means that prices and production will make their own adjustments under the law of supply and demand, just as they do now.

For a concrete illustration we may take wheat. The wheat crop will go to market under the McNary-Haugen plan just as it does now, but the Government Board which is to supervise all marketing operations will require that what is euphoniously called an "equalization fee" shall be deducted from the proceeds for the benefit of a revolving fund which will constitute the working capital of the Board. Out of this fund will be paid the expenses and

*For a comprehensive discussion of the McNary-Haugen bill the reader is referred to "Farm Relief, a Brief on the NcNary-Haugen Bill," by Professor James E. Boyle, of the New York State College of Agriculture, published by Doubleday-Doran, New York.

losses of operations, including the losses resulting from dumping the surplus in foreign markets at less than the price paid at home. The duty on imports of wheat is now 42 cents per bushel, and the original plan contemplated that the Board would buy and export enough wheat to raise the domestic price to approximately the level of the world price, plus the duty, but the bill now pending goes this one better by providing that the equalization fee shall be collected upon all imported farm products, which practically has the effect of adding that much to the tariff rates.

With this provision the equalization fee does not necessarily come out of the price, but may become an additional charge upon the consumer. In any event, the equalization fee will be nothing to the farmer but an item of cost incidental to the plan, and signify no more than any other item of costs. The farmer's interest will be in the net price which he receives.

As for the deterrent influence of the export price, the farmers are producing for export now. They have declined to reduce production for export. After a decline following the end of the war, the acreage planted to wheat has been recently recovering.

It is erroneously said that the producer will pay the equalization fee, but so long as the price is maintained by the plan at an artificial level, it is evident that the domestic consumer will pay it. The worst feature of the whole plan is that under no circumstance will the farmer get the benefit of all the increased cost to the consumer. A considerable part of the higher price will be simply wasted in maintaining a costly organization.

The stimulus given by higher prices may be expected to gradually increase both production and exports, and the depressing effect upon world prices will force down home prices as well. The disturbance in world markets may be expected to result in international protests.

The Protective Tariff Argument

The avowed purpose of the bill is to give the producers of farm products the benefits of the protection which the import duties are said to impliedly promise but which domestic competition renders unavailing. The argument is that the industries generally have the benefit of tariff protection, while agriculture does not, but numerous examples can be named of agricultural products that have effective tariff protection and of industrial products that do not have it. Coal and cotton goods just now are outstanding examples of products which so far as assurance of profits are concerned are as ineffectively protected as wheat. The object of a protective tariff is to confine competition among the home producers. It is a new idea that the Government should afford protection to home producers against each other.

Cotton is an agricultural product for which the McNary-Haugen bill promises worse than nothing, because there is no duty on cotton of foreign production and no competitive imports of any consequence can be had. It is not even claimed in the Committee reports that anything can be done for cotton beyond assisting in "orderly marketing," a vague promise that the Government Board will be able to raise the price in the open market by simply buying at one time and selling at another. Against this, the cotton farmers may count the increased prices which are promised for flour, feed and other farm products which they regularly buy.

One of the complications of the bill is seen in the situation which would arise as to all manufactured exports in which farm products are raw materials, such as flour, meats, cotton, etc. Since the cost of raw materials would be increased, the exports of such products would cease, unless compensation was given from the "equalization fund." This situation goes far to support the opinion that the bill is the most artificial and complicated measure for government control over business that ever has received the approval of an American Congress.

Promises Illusory

The proposals of the McNary-Haugen bill afford no substantial promise of improvement for general conditions in agriculture. Although temporary gains might result for certain products, wheat for example, by reason of the high import duty made quickly effective, such benefits would not be equally distributed, and many farmers would be losers by them. Furthermore, the artificial price would tend to develop artificial conditions in agriculture, as did the abnormal prices of wartime, which are largely responsible for the post-war depression. The long period of prosperity in agriculture, with steadily rising land values, extending from 1898 to 1920, had the effect of unduly stimulating agricultural development.

The bill would make for political rather than economic regulation of prices and the farmers should not be sure that such regulation always will be advantageous to them. The advocates of the bill are counting on raising the cost of food and the materials of clothing without a corresponding advance of pay to the vast wage-earning population. A corresponding increase of wages would increase the cost of everything the farmer must buy and raise all industrial costs in this country, to our disadvantage in world trade.

Agriculture Recovering

Finally, while the debate has been going on, the agricultural situation has been improving

by natural processes, until the disparity between the prices of agricultural products and other products which existed when this bill was first offered has practically disappeared. Other products have been declining and farm products have been rising. Fluctuations there have been in all the products, with prices rising when production declined and falling when production increased, as from the beginning of time. The record is a perfect exhibition of the useful warnings of the law of supply and demand. The consumption of such staples as wheat flour, corn and meats has not kept pace with the growth of population, for the obvious reason that the general diet has broadened, but the surpluses have been declining until at this time no farm product in the first rank of importance can be named which is not selling fifty per cent or more above the pre-war level. At one time the cattle industry was in as deplorable a condition as any, but it never was in a more healthy state than it is today. Hogs are back on a remunerative basis. Sheep, lambs and wool are 100 per cent above the pre-war price. Wheat is about $1.60 per bushel in Chicago, against a five-year average, 1909-1914, of 88.4 cents, corn is $1.06, against 64 cents, oats 63 cents against 40, cotton 20 cents per pound against 12.4. All of these comparisons are with the five year pre-war levels. Dairy products have been bringing remunerative prices throughout the entire period of depression.

It is true that if the production of these commodities shall be increased faster than the demand for them increases, so that surpluses accumulate and are carried over from year to year in increasing amounts, these prices will not hold. It is useless to produce anything in excess of the demand for it.

The Department of Agriculture and Colleges of Agriculture in nearly all of the States are constantly demonstrating to the rising generation how the yields of products per acre may be increased and cheapened, and the implement manufacturers are constantly increasing the effectiveness of man-power on the farms. All this is helpful to the farmer who is alert to adopt the new methods, but inevitably makes harder conditions for the farmer who keeps on farming with the practices of an earlier time. It is inevitable that improved methods and lower costs will tend to lower prices.

Efficiency and Overproduction

Apropos of the foregoing we give the following extract from a recent paper by Professor C. T. Dowell, Dean and Director of the experiment station of the Agricultural and Mechanical College of Oklahoma:

> Agricultural experiment stations and agricultural colleges in general are criticized quite frequently by some who say that the main purpose of experiment stations is to increase production. This is not true. Experiment stations and agricultural colleges do not wish to increase the total production of agricultural products. We do wish to produce agricultural products at as low a cost as possible. All of our efforts are bent toward studying those factors that enter into the cost of production of various agricultural commodities. If we produce more bushels or pounds per acre it means that our cost per bushel or pound is made less. It means that if one succeeds in increasing the production per acre and will keep the same number of acres in cultivation we are increasing the total production and will be thereby decreasing the income of the farmer because of the lower prices. If we select cows that having a given amount of feed will give a greater amount of butter or milk we are doing the job more efficiently. If every one carries out such a selection and we keep the same number of cows, of course, the total production is going to be increased. In this sense agricultural colleges and experiment stations may be bringing about over-production, but what shall we do? Are we to keep a larger number of people on the farm who employ inefficient methods in agriculture in order that we may have a low production? Or shall we have a fewer number of people on the farm who employ efficient methods and thereby have a greater income per individual?

Professor Dowell does not shrink from the logical deduction from this eminently clear and practical statement. He goes on to say:

> This country made a mistake in its land policy. We put too many acres under the plow. Our production of crops and of livestock products has grown more rapidly than has our population, in spite of the fact that we have millions of people leave the farm and go to town. * * * We should stop our talk about the people leaving the farm, and try to encourage them to go to town. Two classes of people are leaving the farm. The larger class is that of the inefficient farmer and a smaller number of the best class. Economic conditions on the farm are forcing the inefficient farmer out, and this is as it should be and will finally help farmers in general.

The Governing Principle

The exchange value of the various products and services offered on the market depends upon their relative scarcity or abundance, and this in the long run depends upon the distribution of the population in the occupations. It does not lie in the power of the Government to regulate the relations between the occupations, so long as freedom of individual choice and movement is allowed. No benefits that the Government can confer upon a particular group can permanently improve the position of that group unless outsiders are prevented from coming in and sharing them. The law of supply and demand as a system of equalization is infinitely superior to the McNary-Haugen plan. Its workings are seen in the well known fact that any employment in which gratuities or special favors of any kind are commonly received is invariably one of low regular wages. Agriculture itself affords a striking illustration of this tendency in its influence of rising farm land values upon current farm earnings. Rising land values have been the main factor causing population to swarm over every new area of public land opened for settlement, and the resulting increase in the production of the farm staples has depressed the prices of these products below what they

would have been if current income had been the only inducement to land settlement. Moreover, there are advantages and benefits incidental to farm life which do not appear in regular farm income but which count in the final comparison between farming and other occupations. All of these factors have an influence upon production, which in turn has a direct influence upon the prices of farm products, and this familiar example affords a complete demonstration of the futility of such measures as the McNary-Haugen bill. There is no reason to doubt that if Congress should see fit to provide that everybody engaged in agriculture should be pensioned at the age of 60, the number of farmers would increase until the aggregate income of all farmers, including the pensioners, was no greater than before.

The Constitutional Question

In his letter of advice to the President last year the Attorney-General gave his opinion that the McNary-Haugen bill as an act of Congress would be unconstitutional, and a number of eminent lawyers in the Senate and House of Representatives have publicly stated that they held the same opinion. Within the past month the Supreme Court has rendered a decision which apparently supports this view.

The case in point was one involving the so-called flexible provision of the existing tariff act. The law authorizes certain variations in rates of duty upon action by the President, such action to be taken as found to be necessary to afford adequate protection to home industries. The suit was brought by an importer, who questioned the constitutionality of the provision on two grounds: (1) that it delegates to the President legislative power vested only in Congress, and (2) that it was designed apparently for the purpose of "protecting" the industries of the United States, whereas the Constitution gives Congress power to levy taxes and collect customs duties only for the purpose of raising revenue.

The Court, in an opinion by the Chief Justice, upheld the act against both contentions, but the holding in which we are now interested is in response to the second contention. The Court says that the law is primarily a revenue act and that the policy of affording incidental protection to home industries has been followed throughout our history. In conclusion the Court said:

> So long as the motive of Congress and the effect of its legislative action are to secure revenue for the benefit of general government, the existence of other motives in the selection of the subject of taxes cannot invalidate Congressional action.

The "equalization fee" of the McNary-Haugen act is a charge, to be collected by Government officials, upon all of the products which are brought within the provisions of the act. It is in effect a tax, but no part of it enters the Treasury. There is no possible basis for a claim that the bill is a revenue measure, hence there is apparently little likelihood that the Court which rendered the foregoing opinion would hold it to be constitutional.

The advocates of the bill claim that the equalization fee is constitutional under the authority given Congress to regulate commerce, but if such latitude as this is afforded for the regulation of commerce it is difficult to see what will be left of the safeguards of the Constitution.

Law of Supply and Demand

In the coal inquiry being conducted by the Senate Committee on Interstate Commerce one of the members after expressing the opinion that the law of supply and demand "if put into force would bring this country to the same condition as far as labor is concerned as Europe is," asked a witness if the law of the survival of the fittest "has any place in civilized society?" The witness is reported as saying:

> "Senator, the law of supply and demand is a jungle law, but I don't know how to stop it."

Is there anything ethically wrong in the law of supply and demand or the tendency for the fittest to survive over the less fit? "Survival" in the business world means continuance where one is or in what he is doing, and it frequently happens that the best fortune that ever befalls an individual is that of being compelled to change from where he is or from what he is doing or from his manner of doing it. There is a good deal of hit-and-miss about the distribution of the population in the employments, and the law of supply and demand is always tending to correct the mistakes.

The "law" is simply a name for a natural tendency for supply and demand to meet and satisfy each other. It is said that nature abhors a vacuum and it may be said also to abhor a demand without a supply or a supply in excess of the demand. It is always working to maintain or restore the equilibrium throughout the industries. Wherever an increased supply is wanted to meet a demand, an incentive appears in the market price, and on the other hand, wherever a supply is in excess of the demand, the market price tends to decline, gradually at first and serving the double purpose of increasing consumption and warning against the continuance of a surplus which cannot be used.

Why should this economic law, which tends to distribute the working population in the various industries and occupations in the proportions which will produce the best results, be called the law of the jungle? Evidently this has reference to the competitive conditions which sometimes arise when all the warnings of the law are disregarded and certain industries are overcrowded.

There is competitive warfare of the jungle kind, with resort to trickery, deception and unfair practices, but it is not as typical of business life as is honorable competition in which merit wins to the advantage of everybody. Competition in the sense of a fair test and comparison of abilities to render service is the most effective means of perfecting the industrial organization and of placing individuals where they will be most useful.

The history of industrial and social development is a continuous story of the competition of new ways of doing things with the old ways, and although the issue always has been that of the survival of the fittest, and every change has involved more or less discomfort or temporary loss to some persons, Society has moved forward by means of the changes. The railroads drove the stage coaches out of business, the trolleys drove out the horse cars and the automobile has been making a lot of trouble for both trolleys and steam railroads. Men are thrown out of employment temporarily, and investments are depreciated or wiped out by these innovations, but what can be done about it, except to agree that whatever is demonstrated to be fittest for its purpose shall be welcomed and adopted?

The Bituminous Coal Industry

The coal industry, which was the subject of the discussion from which the foregoing quotations are taken, is in trouble all over the world, plainly as the result of excess capacity, at least for present needs. In Europe a falling off of consumption by reason of industrial depression and disruption of trade relations has been a factor, but increased use of water power and oil and increasing efficiency in the utilization of coal in the generation of steam-power have been other factors. In the United States a great stimulus to mine development was given by the intense industrial activity of the war years and boom years following. The Bureau of Mines estimates the new annual capacity added to the bituminous industry from 1915 to 1923 at 275,000,000 tons, which was far above the usual increase in that length of time. About 150,000 men were added to the working forces in the same time. The additional capacity and additional employes have not been needed in recent years, and it is probable that the increased output of certain years might have been had more advantageously without most of the new development. Mr. Lewis, head of the United Mine workers, has said in the present inquiry that the industry is over developed at least two-fifths. Mr. George S. Rice, an engineer attached to the Bureau of Mines, has expressed the opinion that if the existing mine capacity was worked full time the year round the production would be two to two and one half times the consumption needs of this country.

While the high prices and high wages of the war period and years following are in part responsible for this excess capacity, the failure of consumption to increase as in previous periods has been an important factor. In the years before the war the consumption of bituminous coal was increasing at a fairly regular rate, doubling in approximately ten years. In the last fifteen years the increase has been comparatively small. Production was 478,000,000 tons in 1913 and 479,000,000 tons last year, and even if allowance be made for the consumption of coal stored for the strike, it is evident that the increase was much below the former rate. Seventy-five per cent of the industrial power of the country is now furnished by electricity, and while it is mainly generated from coal this has been done with steadily increasing efficiency. From 1919 to 1925 the reduction in the consumption of coal by central power stations, per kilowatt hour, was 39 per cent. The railroads account for approximately one-fourth of the coal consumption of the country, and their locomotive consumption per ton mile of freight carried has declined by about 21 per cent since 1920. Oil has been a larger competitive factor here than in Europe, and water-power has been an increasing influence. In 1890 not more than 5 per cent of the bituminous coal production was by the use of coal-cutting machines, while in 1925 70 per cent was produced in this manner. This has increased the capacity of the individual worker fully 50 per cent, although the introduction has been so gradual that machines are said to have not been a prominent factor in the present crisis. All of these factors together however have prevented the increasing demand for mine labor which under former conditions might have absorbed what is now a surplus supply.

Summed up, the industry is over-expanded and over-manned, and as a whole on an uneconomical basis. It is impossible to afford regular employment to the number of men attached to the industry, and to attempt to afford proper support to all of them and their families by distributing part-time work would be an unjustifiable charge upon the product. The cost to consumers would be out of all reasonable proportion to the pay actually realized by the miners.

An Example of Steady Operations

The Executive Vice President of the Consolidation Coal Company, operating in West Virginia, told the Senate Committee that in 1924, operating on the Jacksonville scale with an average of 4,180 employes, the latter averaged 131 days' work and the pay roll for the year aggregated $4,990,000 or $1,195 per em-

ploye; also that in 1927, operating on a non-union basis with a lower scale, the average number of employes was 4,497, the average days worked were 256, and the aggregate pay roll for the year was $6,825,000, or an average for each employe of $1,517 in the year. Members of the Committee offered the comment that the increased volume of business which produced the results in 1927 was taken away from mines in other States which were maintaining the Jacksonville scale, and also that if these competing mines had reduced wages and prices to or below the Consolidation's level, he could not have continued to make this showing, and might soon have been worse off than before any cuts were made. All this probably is true, but it does not detract from the value of the demonstration that the only remedy for the coal situation is in concentration of production for the elimination of idle time. Although they still had nearly two months of idle time, the miners earned an average each of $332 more at the reduced scale than under the Jacksonville scale, the stockholders of the company fared better and coal was sold at lower prices to consumers.

Experience apparently has shown that the Jacksonville scale, based upon $7.50 per day for common labor, is unrealizable. It tends to close up union mines and develop non-union territory. Union miners, left in idleness by the shift of trade to the non-union mines, go to the latter for employment, with the result that non-union capacity has grown almost, if not fully, to the point of ability to supply the entire demand.

It is no answer to this situation to say that wage-cutting and price-cutting tend to reduce labor to deplorable conditions. It will do so, inevitably, under a great surplus of labor if all of the miners are determined to stay in the coal industry regardless of conditions. The situation is that work for all of them is not to be had in the industry and there is no remedy which does not involve the removal of labor to other fields. The strict maintenance of the Jacksonville scale at every mine in the country would not increase the consumption of coal or prevent poverty among miners. Nothing but a lessening of the number of workers dependent upon the industry can do that. It is desirable that the number be reduced without a cut-throat struggle over wages, but that depends upon how readily part of them will go to other employment. The downward tendency of wages and prices is practically inevitable in an overcrowded industry, because it is only under pressure that the industries will conform to changing conditions.

The Flour-Milling Industry

The transfer of capital and labor from one industry to another or one locality to another, is constantly occurring, because the industries themselves are always changing. It might be thought that the demand for bread would be as stable as the demand for anything, but the consumption of wheat flour in this country in 1909 was 1.058 bbls. per capita, and in 1925 had fallen to .89 bbl. per capita. Moreover, changes in the technique of the industry, in methods of marketing the product, in the sources of wheat supplies, etc., have brought about a concentration of production in a smaller number of units, and the building of many new mills of large capacity. Buffalo has had a large increase of capacity, because of the eligible position for drawing wheat from any section of this country and from Canada and for distributing flour throughout the eastern states and to Europe. Kansas City and other cities of the Southwest have had a large increase of milling capacity, because of the development of winter wheat production in that region. At the same time, a large reduction has occurred in the number of mills in operation and in the number of employes in the industry. In 1919 the census reported 10,708 mills and 45,481 employes. In 1921 and following censuses, mills having a product in the census year valued at less than $5,000 were omitted, and this was a factor in the decline of census figures in that year to 6,485 mills and 35,378 employes, but in 1925 the basis was the same as in 1921 and the census figures were 4,413 mills and 31,988 employes.

There is much complaint of meagre profits in the milling industry, but the construction of new mills goes on. The Northwestern Miller of March 21, 1928, announces the acquisition by the Pillsbury Flour Mill Company of a site at Enid, Oklahoma, upon which it will begin at once the construction of a 1,500 barrel mill. It will be large enough for a 3,000 barrel mill, but only 1,500 capacity will be completed now. The same number of the Northwestern Miller also announces plans for the construction of a 2,000 barrel mill at Toledo.

The flour-milling industry has been conforming to the law of the survival of the fittest, adapting itself to changing conditions and seeking to develop the highest efficiency in converting wheat into flour and delivering flour in the chief markets.

The Cotton Goods Industry

The cotton goods industry is one in which important changes have been going on. It had its early development in New England, and that section was preeminent until about two decades ago, but the South took the lead in the number of spindles in 1925, and now has more active spindles than all the rest of the country combined. Its mills are new, costs are low, the rapid expansion of the industry

has created capacity somewhat in excess of the consumption needs of the country, and competitive pressure has been severe. The industry has been generally unprofitable in New England in recent years, many of the old and best known companies showing operating deficits from year to year. Obviously business cannot continue indefinitely on that basis, and as an alternative to closing down operations numerous wage reductions were made in the last several years. The fine goods mills at New Bedford have not felt compelled to adopt this course until this year, but announced a reduction of 10 per cent, effective April 16. A strike has resulted, and the greater part of the industry in that center is now closed down.

It is safe to say that the New England mill companies are not reducing wages for the purpose of increasing profits, but because they consider it necessary if they are to continue operations. Whether the present situation is permanent or not will depend upon competitive conditions in the long run. If the Southern mills can supply the market with goods of equal quality at lower prices, the New England industry will decline, but if the South has no advantage except in lower wages the growth of all Southern industries will eventually raise wages there to a level with the rest of the country, through the beneficent influence of the law of supply and demand.

The lack of industrial employment in the South has been the main cause of lower wages there than in other parts of the country. Wages are uniformly highest where capital is in largest supply, and until comparatively recent years capital was scarce in the South. The low wages, however, were a positive factor in attracting capital to the South and in the rapid development of the cotton goods industry in that section. The development would not have occurred as it has without this stimulus, and who is prepared to say that the law of supply and demand has not played a useful part in thus bringing the South up to the equality in industrial development to which its resources entitle it? Once the equality is established, the same natural forces will maintain the equilibrium.

There is nothing in the workings of the law of supply and demand which is antagonistic to the body of Labor as a whole, but it plays no favorites as between sections or groups. If in the cotton goods industry it has seemed to work against the interests of New England labor, the very same influence has been raising the condition of Southern labor. A process of equalization has been going on.

The Important Thing to Labor

The most important thing to the laboring man is that the industrial organization shall be constantly improved by the elimination of inefficiency and waste. It is to his interest that labor shall not be expended anywhere without adequate results, for the purchasing power of labor over products determines his standard of living. The unemployment problem is the same kind of a problem that it always has been, but it is at least certain that no progress is made toward its solution by deliberately maintaining any part of the population where it renders no service. The value of every individual to the community is in his ability to pay for what he consumes. Common sense and experience both refute the theory that improvements in industrial methods or machinery cause permanent unemployment. The economies which they accomplish provide new buying power. The elimination of waste in the production of coal would cheapen production in all the industries and probably increase general consumption to such an extent as to provide employment for all the idle miners.

The secret of full employment, ready consumption and a rising standard of living is in obedience to the law of supply and demand, which is always seeking to maintain the industries in right relations with each other. It is often said that every person is entitled to a chance to earn a living, but even so, this does not signify that he is entitled to earn it in any particular place or in any particular employment, or at any particular price that he may choose. That would be naming conditions which obviously could not be assured to everybody and no one is more entitled to such assurance than any one else. At last there is an obligation upon every one to find the place where he can be useful, or to make the best effort in his power to do so.

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